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Robert W. Hughes
Chairman & CEO

February 28, 1994

CORRESPONDENCE
FILE

Mr. Michael L. Katz
Chief Economist
Federal Communications Commission
1919 M Street, N.W., Suite 814
Washington, D. C. 20554

Dear Mr. Katz:

I was glad to read your comments in the enclosed Boston Globe syndicated article. Until reading your comments, I just did not understand how this FCC second rate cut mandate of 7% could have occurred. Now I realize it happened simply because the FCC didn't understand what it was doing.

Let me plead with you as Chief Economist to try to educate some of your colleagues. First, let's take a look at the cable industry for 1993 both before rollbacks and after the combined 17% rollback:

	Before	After
Revenue	$ 26.3 billion	$ 23.3 billion
Cash Operating Profit	9.6	7.6
Less:		
Interest Expense	4.0	4.0
*Required Capital Expend.	3.2	3.2
Cash Available for debt repayment	$ 2.4	$ .4

* as opposed to "desired" which would include future electronic services

Now factor in the fact that the cable TV industry owes $43 billion in debt. This illustrates that cable TV, after rollbacks, is now capable of repaying its debt over the next 107 years. Sound absurd? It is a fact! This is why the cable TV industry today -- once you drop below the 12 companies representing 33.25 million subscribers which have access to both public equity and high yield debt -- is essentially bankrupt. It is why my company serving 559,000 subscribers, considered one of the best managed companies in the industry, will go in default on $359 million in bank debt within the next six months. It is also the reason why all cable TV companies will immediately defer a significant part of their1994 capital expenditures. It is not that we want to do this, we simply don't have the cash to do it.

Mr. Katz, I respectfully ask that rather than trash this letter, you do a little research and attempt to find fault with the numbers I've given you above. They can be verified through a number of sources such as banks, Goldman Sachs, Paul Kagan or Morgan Stanley.

Then please do one other thing for your colleagues who do not have the benefit of your economics background. Explain to them that when an industry already owes its bankers all it can borrow, capital expenditures can only be made out of savings or net income -- neither of which our industry has today. And, as far as raising additional equity capital, with our industry preparing to enter a competitive battle with the telcos who annually generate $11.1 billion of net income, please explain to them that the "financial markets" are just not interested in funding the needed capital dollars under the new regulations. We know because we've already tried even before the announced 7% rate rollback.

Mr. Katz, I'm not any happier writing this letter than you are about reading it. Believe me, I wish my company didn't have this mountain of debt on our balance sheet. But that is the only way our industry was able to cable America. I've been in this business full-time for 26 years, am a conservative guy, have all my net worth in ownership of my company's common stock, and am sick that operators our size and smaller, who represent approximately 40% of the industry, will most likely have to sell out to the RBOC's who are going to be looking for bargains.

Thank you. I feel better knowing that at least one person at the FCC understands what has happened.

Sincerely,

R. W. Hughes

Robert W. Hughes
Chairman and CEO

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Enclosure

cc: Mr. Brian Greenspun

TCI, Bell Atlantic blame FCC regulations for killing merger

By Aaron Zitner
Boston Globe

Pay now. Play later.

That, according to consumer advocates, is the proposition that cable television operators have made to their ratepayers. Pay higher rates now, and the cable companies will invest in the wires, switching equipment and programming to create an "information superhighway," complete with home shopping, banking from home movies-on-demand and other services.

This week the question of who should pay to develop these services reached a new and higher volume, as Tele-Communications Inc. and Bell Atlantic Corp. blamed federal regulators for killing their planned merger. Regulators dismissed the claim.

With TCI's cable wires and Bell Atlantic's sophisticated switching equipment, the merged company would have become the nation's sixth-largest corporation and the front-runner in the race to deliver new information services to homes across the country.

But as the deal fell apart Wednesday, company officials faulted a Federal Communications Commission order Tuesday to cut cable TV rates by 7 percent. The price that Bell Atlantic would pay for TCI was based on the cash flow of TCI's cable properties, and that cash flow would fall due to the FCC rate cuts, the companies said.

TCI decided to remain independent rather than be sold for a lower price, James Cullen, Bell Atlantic's president, said Thursday.

TCI president John Malone called the cuts "ill advised, improperly based, probably illegal and probably unconstitutional." He and other cable operators said the rate cuts would also delay investment in a national "information superhighway," which some say will become as important to the public good as are roads and bridges.

Many analysts and regulators, however, said they believed the two companies were only using the FCC as an excuse to explain a deal that fell apart for other reasons, such as the sharp drop in Bell Atlantic's share price since the merger was announced in October.

For whatever reason the deal failed, regulators said, companies and their shareholders — not ratepayers — should cover the cost of developing the electronic services of the future. "That's not what regulated ratepayers are for," said Michael L. Katz, the FCC's chief economist. "That's what financial markets are for. I don't buy the argument that the cable ratepayer is the one to pay for" the information superhighway.

"Whatever the real reason this deal fell through, no deal should survive if it is premised on a cable company charging monopoly rates to consumers," said Rep. Edward J. Markey, D-Mass., and a leading supporter of the FCC rate-cutting.

Already, says the Consumer Federation of America, a Washington watchdog group, regional telephone companies have overcharged customers by $35 billion since they were created in the AT&T breakup 10 years ago. The group determined that figure by comparing AT&T's rate of return before the breakup with the regional Bells' returns afterward.

At the same time, cable companies have overcharged customers by about $6 billion, the consumer federation says. It arrived at that figure by examining rates in the few markets where cable operators face competition.

TCI and Bell Atlantic "were counting on ratepayers to make up some of the cost of building the highway, because ratepayers have been making it up on their other investments," said Mark Cooper, the consumer group's research director.

Under pressure from Congress, the FCC has sought to save cable subscribers $3 billion by ordering rate cuts in April and again Tuesday. The agency says its new rules, which will be detailed in the coming month, will include incentives to reward cable companies that invest in more programming, upgraded equipment and other service improvements.

But the cable industry greeted the rate cuts with hostility, and some analysts said ratepayers should share the cost of building the information superhighway.

"The information infrastructure is something that benefits everyone, even if they don't benefit on a daily basis," said Eli Noam, professor of finance and economics at Columbia University in New York.

"It's quite possible for a few years that construction, or upgrade, of telecommunications in society will require a subsidy by the ratepayers," Noam said.

Others said that cable companies are particularly unhappy with the FCC's rate cuts because of the changing nature of the cable and telephone industries.

Regulated as monopolies, the two industries are about to face fierce competition. Cable companies will soon be challenged by firms offering similar programs by satellite, and eventually two cable providers are expected to operate in many markets. Regional telephone companies are being squeezed by small local upstarts and by wireless telephone providers, as well as by a threat that national phone companies such as MCI will move into their markets.